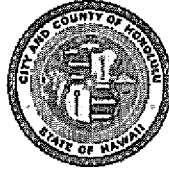


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DEPARTMENT OF TRANSPORTATION SERVICES
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April 20, 2011

RT4/11-412925

Mr. Leslie T. Rogers, Regional Administrator
Federal Transit Administration, Region IX
U. S. Department of Transportation
201 Mission Street, Suite 1650
San Francisco, California 94105

Dear Mr. Rogers:

Subject: Honolulu High-Capacity Transit Corridor Project
Draft Financial Plan for Entry into Final Design

The City and County of Honolulu (City) submits the attached *Draft Financial Plan for Entry into Final Design* (Draft FD Financial Plan). We understand this draft will likely be revised as a result of the Federal Transit Administration's (FTA's) review and risk assessment evaluation, and a final Financial Plan will be submitted at a later date to support the City's application for entry into the Final Design phase of project development.

This Draft FD Financial Plan updates the plan submitted to FTA in August 2009 as part of the City's request to initiate Preliminary Engineering. The noteworthy changes between the plans related to the Project's sources and uses of funds are summarized in the table below.

	April 2011 Financial Plan (FY10-FY30 millions)	August 2009 Financial Plan (FY09-FY30 millions)	Difference (millions)
Project Capital Sources			
Project Beginning Cash Balance	\$298	\$154	\$144
Net GET Surcharge Revenues	\$3,306	\$3,524	(\$218)
FTA Section 5307 Funds Used for the Project	\$248	\$305	(\$57)
Interest Income on Cash Balance	\$6	\$11	(\$5)
Total Sources	\$5,408*	\$5,544	(\$136)
Project Capital Uses			
Project Capital Cost	\$4,983	\$5,120	(\$137)
Total Interest Payments and Debt Issuance Cost	\$334	\$393	(\$59)
Total Uses	\$5,317	\$5,513**	(\$196)

* Prior to \$91 million transfer of ending cash balance from excess GET Surcharge funds to ongoing capital uses.

** Includes \$31 million Project ending cash balance.

Mr. Leslie T. Rogers, Regional Administrator
Page 2
April 20, 2011

The Draft FD Financial Plan reflects the most current project status, revenue forecasts, and costs, including costs related to the Honolulu Authority for Rapid Transportation (HART). HART will be the semi-autonomous City agency that will manage the Project effective July 1, 2011. The Financial Plan also reflects a more refined financing structure based on input on interest rates and bond structures from the City's bond underwriters.

Please contact Kenneth Hamayasu if you have any questions on the Draft FD Financial Plan or require additional information to facilitate your review. Mr. Hamayasu can be reached at (808) 768-8344 or thamayasu@honolulu.gov.

Very truly yours,


Wayne Y. Yoshioka
Director

Attachment

Chapter 2: CAPITAL PLAN

This chapter describes the capital costs and funding sources associated with both the Project and the City's existing public transportation system. The purpose of the chapter is to demonstrate that there is an adequate level of funding for the capital costs associated with both the Project and the system-wide needs through FY2030 (see Figure 2-1).

PROJECT CAPITAL COSTS

Table 2-1 presents the Project's annual capital costs excluding finance charges. The total capital cost for the Project is \$4,346 million in 2011 dollars and \$4,983 million in YOE dollars. These costs are inclusive of construction services, professional services (such as engineering, design, and construction management), and contingency, but exclude finance charges that are detailed later in this chapter. Consistent with FTA guidelines for New Starts projects, the capital cost estimate does not include costs incurred for planning, environmental analysis and conceptual engineering incurred prior to entry into Preliminary Engineering.

The capital cost estimate is presented in detail in Attachment C using FTA's standard format, and summarized in the following sections.

Table 2-1, Annual Project Capital Costs, Excluding Finance Charges, FY2010–FY2019

City Fiscal Year	Base Year 2011 \$M*	YOE \$M
2010	\$83	\$83
2011	232	233
2012	594	615
2013	785	848
2014	775	871
2015	581	682
2016	485	599
2017	494	633
2018	246	325
2019	70	95
Total	\$4,346	\$4,983

Note: Totals may not add due to rounding

* As of third quarter of FY2011

CAPITAL COST ESTIMATING METHODOLOGY

The Preliminary Engineering design level capital cost estimate is organized in the FTA Standard Cost Category (SCC) format, which includes the following components: guideway and track elements, stations, support facilities, sitework and special conditions, systems, right-of-way (ROW), land improvements, vehicles, and professional services.

The Project incorporates multiple project delivery approaches, including design-bid-build, design-build, and DBOM contracts. The capital cost estimate takes into account the cost of design-build, DBOM, and station design contracts that have been executed or are in the award process. The cost estimates for remaining project elements are based on Preliminary Engineering. The

Figure 2-1, Project Sources and Uses of Funds, YOE \$millions

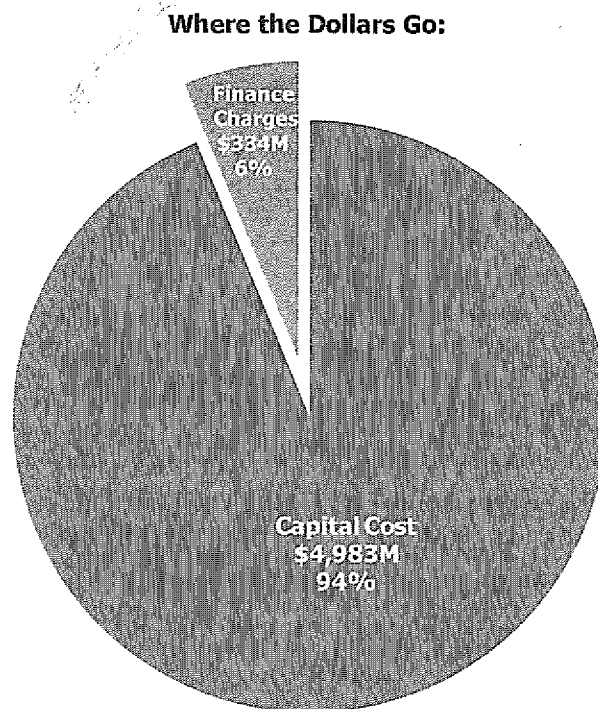
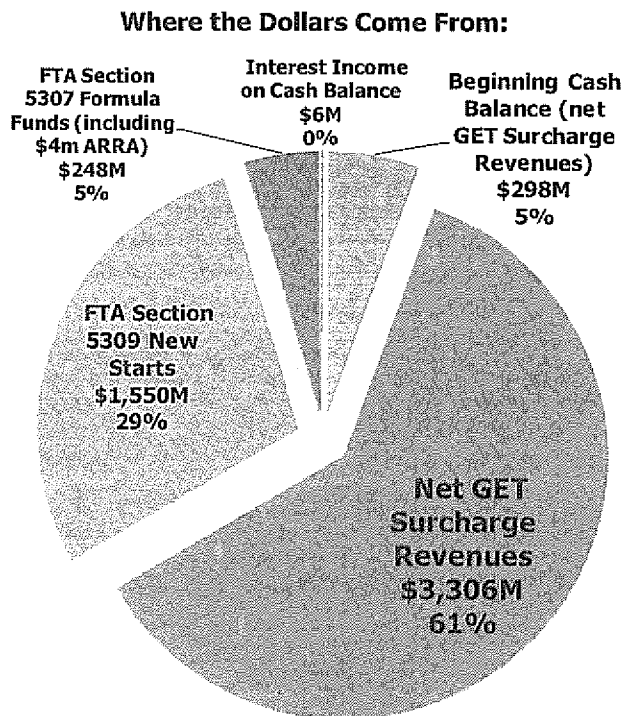
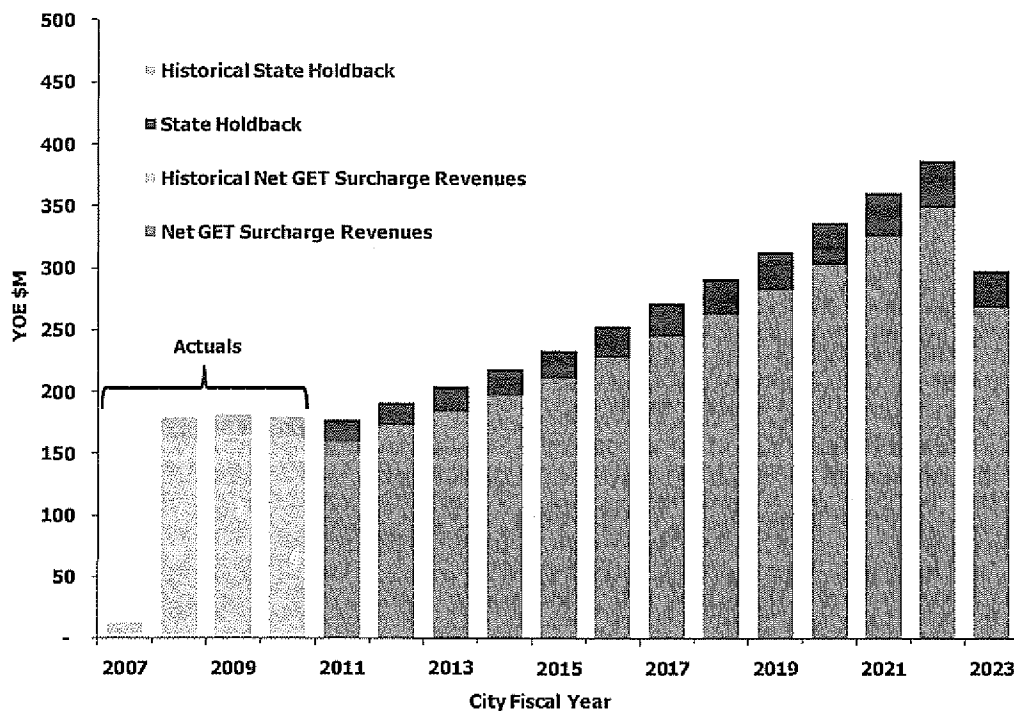


Figure 2-4, Annual GET Surcharge Revenues, FY2007-FY2023, YOY \$million



GET Surcharge Forecast Methodology: Several times each year HTAX develops a forecast of State GET revenue that is published as part of the State of Hawai'i Council on Revenues forecast of State general fund tax revenue. The Council on Revenues prepares government revenue estimates for the Governor and State legislators. The HTAX State GET forecast from March 10, 2011 serves as the basis for the GET Surcharge forecast presented in this Financial Plan. Additional information about the GET forecast used as the basis of the Financial Plan is included in Attachment D.

To generate its statewide GET forecast, HTAX uses a time series linear regression model with an autoregressive term to control for serial correlation. The model uses forecasts of visitor arrivals, construction activity, and total personal income as independent variables to explain GET collections.

The net GET Surcharge revenues presented above are derived by applying the following forecasting methodology to actual FY2010 GET Surcharge receipts:

- For FY2011, HTAX projected annual growth in statewide GET revenues of 7.2 percent. In anticipation of potential negative economic impacts resulting from the earthquake and tsunami that occurred in Japan in March 2011, the Financial Plan assumes a lower annual growth rate of 4.0 percent annual growth in GET Surcharge revenues for

FY2011. The first two quarters of FY2011 are based on actuals.

- For FY2012 through FY2017, the Financial Plan relies on annual GET growth rates calculated from the HTAX forecast of statewide GET revenues and applies the growth rates to the GET Surcharge. The annual growth rates are as follows: FY2012 – 6.83 percent, FY2013 – 6.88 percent, FY2014 – 6.97 percent, FY2015 – 6.88 percent, FY2016 – 8.50 percent, FY2017 – 7.34 percent. The FY2010 to FY2017 GET Surcharge revenue forecast compound annual growth rate is 7.0 percent. By way of comparison to historical GET revenue growth, since 1981 there have been nine 7-year periods (some overlapping) where compound annual growth in GET revenues has been greater than or equal to 7.00 percent.
- For FY2018 through FY2023, the Financial Plan assumes that the FY2017 annual growth rate derived from the HTAX GET revenue forecast will continue through FY2023.
- In FY2023, with receipt of the surcharge ending in March 2023, net GET Surcharge cash revenues are expected to total three quarters worth of tax collection, thus accounting for the lower total cash revenues in that fiscal year compared to FY2022.

As mentioned earlier, the growth rates assumed are subject to numerous risks and uncertainties, including the impact of the earthquake and tsunami in Japan, the magnitude and timing of the economic recovery, future

Honolulu High-Capacity Transit Corridor Project

DRAFT Financial Plan for Entry into Final Design

April 2011

Prepared by:
City and County of Honolulu

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List of Supporting Documents

- GET SURCHARGE HISTORICAL REVENUE DOCUMENTATION
- BEGINNING PROJECT CASH BALANCE DOCUMENTATION
- COUNCIL ON REVENUES REPORT – MARCH 15, 2011
- THREE YEARS OF HISTORICAL OPERATING AND CAPITAL IMPROVEMENT PROGRAM (CIP) AND BUDGET
- THREE YEARS OF HISTORICAL AUDITED FINANCIAL STATEMENTS/COMPREHENSIVE ANNUAL FINANCIAL REPORTS (CAFRS)
- FY2011 TO FY2014 TRANSPORTATION IMPROVEMENT PROGRAM (TIP)
- FY2011 TO FY2014 STATE TRANSPORTATION IMPROVEMENT PROGRAM (STIP)
- BUS AND RAIL FLEET MANAGEMENT PLANS
- CAPITAL COST ESCALATION RATES REPORTS
- HONOLULU AUTHORITY FOR RAPID TRANSPORTATION (HART) LEGISLATION
- LATEST BOND PROSPECTUS
- O'AHU REGIONAL TRANSPORTATION PLAN
- FINAL ENVIRONMENTAL IMPACT STATEMENT AND RECORD OF DECISION

List of Acronyms

AD	Articulated Diesel	HRS	Hawaii Revised Statutes
AH	Articulated Hybrid	HTAX	State of Hawai'i Department of Taxation
ARRA	American Recovery and Reinvestment Act of 2009	JARC	Job Access Reverse Commute
Artic	Articulated	LONP	Letter of No Prejudice
BANs	Bond Anticipation Notes	M	Millions
BLS	U.S. Bureau of Labor Statistics	MSF	Maintenance Storage Facility and Yard
CapEx	Capital Expenditures	NEPA	National Environmental Policy Act
CAGR	Compound Annual Growth Rate	NTD	National Transit Database
CARP	Capital Asset Replacement Program	NTP	Notice to Proceed
COR	Council on Revenues	O&M	Operations and Maintenance
CPI	Consumer Price Index	ORTP	(2030) O'ahu Regional Transportation Plan
CY	Calendar Year	PB	Parsons Brinckerhoff
DBEDT	State of Hawai'i Department of Business, Economic Development and Tourism	PE	Preliminary Engineering
DBOM	Design-Build-Operate-Maintain	PV	Peak Vehicles
DEIS	Draft Environmental Impact Statement	RCH	Revised Charter of Honolulu
DRM	Directional Route Miles	ROD	Record of Decision
DTS	Department of Transportation Services	RTD	Rapid Transit Division
FD	Final Design	S	Stations
FEIS	Final Environmental Impact Statement	SAFETEA-LU	Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users
FFGA	Full Funding Grant Agreement	SB	Standard Bus
FGM	Fixed Guideway Modernization	SCC	Standard Cost Category
FRR	Farebox Recovery Ratio	TECP	Tax Exempt Commercial Paper
FTA	Federal Transit Administration	TIF	Tax Increment Financing
FY	Fiscal Year	TOD	Transit Oriented Development
GANs	Grant Anticipation Notes	YOE	Year of Expenditure
GDP	Gross Domestic Product		
GET	General Excise and Use Tax		
H-1	Interstate H-1, which runs through the Project corridor		
H-2	Interstate H-2, which feeds into Interstate H-1		
H-3	Interstate H-3, which feeds into Interstate H-1		
HART	Honolulu Authority for Rapid Transportation		

SUMMARY OF KEY FINDINGS

This report provides a revised Financial Plan for implementing and operating the high-capacity transit corridor project in Honolulu from East Kapolei to Ala Moana Center via the Honolulu International Airport (the Project), as well as operating and maintaining the existing public transportation system. This version of the Financial Plan is a revision to the Financial Plan submitted in August 2009 for approval to advance the Project to the Preliminary Engineering phase. It supports the City and County of Honolulu's (the City's) submittal to the Federal Transit Administration (FTA) for approval to advance the Project to the Final Design phase. The Financial Plan provides a summary of the funding sources that will be used to fund the construction of the Project, as well as any additional vehicles and rehabilitation and replacement needs through FY2030. The plan demonstrates that the City has adequate financial resources to fund the Project capital cost, as well as the ongoing capital and operating expenditures for the existing transit system, comprised of TheBus and TheHandi-Van, through FY2030.

The Financial Plan describes how the City has fully committed its share of local funding for the Project. The following sections describe key findings within the Financial Plan.

With 71 percent of capital funding provided from non-New Starts sources, the City's financial commitment to the Project merits a high rating by FTA. The City is requesting only 29 percent federal participation from the FTA New Starts program.

All of the local capital funding for the Project is fully committed. With local funding committed and budgeted, design accelerated, and contractor selection initiated, the Project will be shovel-ready upon receipt of the Full Funding Grant Agreement (FFGA). The dedicated local funding source for the Project is an established one-half percent (0.5 percent) surcharge on the State of Hawai'i's General Excise and Use Tax (GET Surcharge). The GET Surcharge is projected to generate approximately \$3.3 billion from FY2010 to FY2023, with funds to be used exclusively for capital or operating expenditures of the Project. The GET Surcharge commenced on January 1, 2007, and will be levied through December 31, 2022.

While it has a diversified and growing revenue base, the GET Surcharge is sensitive to the continued recovery of the local, national, and global economy. Unlike a sales tax, which is typically levied on retail activities only, the 0.5 percent GET Surcharge is levied on all business activities that take place on O'ahu including retail, services, contracting,

theater, amusement parks, interest, commissions, hotels, real property, tangible personal property, all other rentals and other uses. Honolulu's local economic situation is therefore an important factor in assessing the financial capacity of the Project.

Based on projections by the Hawai'i Department of Taxation and the State's Council on Revenues, the economic recovery that began in FY2010 is expected to continue. At the same time, the forecast must be sensitive to the potential short-term and longer-term impact of the earthquake and tsunami that occurred in Japan in March 2011.

Approximately \$244 million in FTA Section 5307 revenues would be used for Project capital costs between FY2013 and FY2019. This amount will be substantially offset by additional FTA formula funds that will be apportioned to Honolulu as a result of the implementation of the Project. The City is expected to receive approximately \$149 million in additional Section 5307 funds and \$88 million in additional Section 5309 Fixed Guideway Modernization funds between FY2018 and FY2030, for a total of \$237 million in additional funds that can be used to support system-wide needs.

The debt financing plan for the Project has been developed with the goals of preserving the City's financial condition, minimizing debt service costs through use of general obligation bonding and short-term revenue anticipation instruments, and providing for repayment solely from GET Surcharge revenues. While available GET Surcharge revenues will be used first to pay Project costs, the use of debt financing instruments will be required and will enable the Project to be completed as currently scheduled.

The capital cost estimate for the Project reflects more advanced levels of design and cost estimation methodologies to reduce cost risk. Supplementing the use of refined bottom-up cost estimation, extensive risk assessment, and incorporation of ongoing involvement with FTA's Program Management Oversight Contractors, approximately 39 percent of the Project's costs are known as the City has awarded contracts for several major project components: design and construction of the West O'ahu/Farrington Highway guideway; design and construction of the Kamehameha Highway guideway; design and construction of the maintenance and storage facility; and design and construction of core systems (including railcars). Additionally, even with a significant level of Project costs defined through these awards, capital cost estimates include a 21 percent contingency, in the event unforeseen issues arise as the Project moves toward implementation.

The capital plan includes ongoing costs to replace, rehabilitate and maintain capital assets in a state of good repair as well as necessary expansion of the existing system to accommodate forecasted 2030 demand levels. In addition to implementing the Project, the Core Systems Contract specifies annual expenditures to provide for periodic overhaul, rehabilitation, and replacement of major components, equipment, and facilities through the Project's Capital Asset Replacement Program (CARP). The City is also committed to maintaining the existing transit system in a state of good repair. This includes a fleet replacement schedule, which will result in an average bus age of 4.1 years by FY2020, the first full year of operations of the Project. This is nearly half the age of TheBus' current average bus age of 8.1 years.

Rail provides the most cost-effective option for handling future transit demand. In part due to labor costs accounting for a smaller percentage of the Rail project's cost structure than bus, the Rail project will handle larger volumes of passengers at higher levels of productivity. In 2030, the Rail project will move each passenger at a cost of \$0.34 per mile, whereas bus will move each passenger at a cost of \$0.72 per mile. Similarly, in 2030 rail will have a farebox recovery ratio of approximately 40 percent while bus will have a farebox recovery ratio of approximately 27 percent. This illustrates the fact that, once fully implemented, the Project is expected to carry a larger load relative to its operating and maintenance cost than bus. The combined farebox recovery ratio for bus and rail will be consistent with City policy.

Operating costs for the Project and the existing transit system have been refined. The O&M cost estimates for the Project have been refined to reflect the terms of the Core Systems Contract and current economic conditions. Project costs that fall outside of the Core Systems Contract (and thus covered by the City) were calculated separately using FTA's resource build-up approach. Bus O&M costs have been revised to reflect the City's latest operating budget. Refined inflation assumptions were also applied to non-core systems Project O&M costs, TheBus O&M costs, and TheHandi-Van O&M costs for each object class, including wages & salaries, health care, other benefits, materials and supplies, fuel, and other.

Operating revenues are supported by the City's farebox recovery policy. Historically, the City has achieved a balanced budget for transit operations. During the economic crisis of the last few years, TheBus has taken steps to ensure it is providing the most cost-effective and efficient services. This has resulted in the restructuring of services that did not meet performance standards. Additionally, the City recently increased fares

to ensure that farebox recovery rates remain between 27 percent and 33 percent and keep pace with inflation. The Financial Plan assumes that fare recovery policy will be maintained through FY2030 and assumes periodic fare increases, which is consistent with historic trends.

Strategies to assure adequacy of capital revenues and to reduce revenue risk are being studied.

Based on input from bond underwriters on interest rates and bond structures, a series of sensitivity scenarios were produced to develop strategies to overcome the following: 10 percent cost overrun; lower than anticipated GET Surcharge growth; elimination of the use of FTA Section 5307 formula funds for the Project; and lower annual amounts of FTA Section 5309 New Starts funds. Potential strategies for consideration include short-term extension of the GET Surcharge as well as incorporation of additional sources of funding. Additionally, the City has access to \$100 million short-term financing to help address potential shortfalls that may occur during Project implementation.

The Project will enhance mobility for O'ahu residents, workers and visitors across the island.

The Project will provide enhanced mobility for over 77 percent of O'ahu's residents and over 88 percent of its workforce who live and work in the areas within and connecting to the corridor, and for its many visitors. In addition to the initiation of rail service, TheBus and TheHandi-Van services will be enhanced and the bus network will be modified to efficiently coordinate with the rail system. Some existing bus routes, including peak-period express buses, will be altered or eliminated to reduce duplication of services provided by the rail system. Buses removed from service in the study corridor will be shifted to service in other parts of O'ahu, resulting in improved transit service island-wide.

The new rail and expanded TheBus and TheHandi-Van services will provide additional travel options, increase service frequencies, expand the hours of operation, minimize wait times, reduce total travel time, improve service reliability, and enhance comfort and convenience for riders, resulting in over 20 million hours of user benefits annually.

The City is continuing its historical commitment to public transportation.

The City has been a strong supporter of transit, with 11 percent of City funds that are available for public transportation currently used to support the operation of TheBus and TheHandi-Van. With the addition of rail service beginning in FY2016, the share of these funds used to support transit is expected to average 15 percent through FY2030. The majority of these funds are to support the increased levels of TheBus and TheHandi-Van services, with funds for rail support accounting for only 2 percent of City funds that are available for public transportation.

Chapter 1: INTRODUCTION

This report provides a revised Financial Plan for implementing and operating the approximately 20-mile high-capacity transit corridor project in Honolulu from East Kapolei to Ala Moana Center via the Honolulu International Airport (the Project), as well as operating and maintaining the existing public transportation system. This version of the Financial Plan is a revision to the Financial Plan submitted in August 2009 for approval to advance the Project to the Preliminary Engineering phase. It supports the City and County of Honolulu's (the City's) submittal to the Federal Transit Administration (FTA) for approval to advance the Project to the Final Design (FD) phase. The Financial Plan will continue to be updated during subsequent phases of Project development as changes occur to estimated costs, funding, or external factors that affect the City's finances.

Unless otherwise noted, all amounts in this Financial Plan are presented on a City Fiscal Year (FY) basis, from July 1 to June 30. For example, FY2013 refers to the City's fiscal year starting on July 1, 2012 and ending on June 30, 2013. All dollar amounts shown, unless otherwise noted, are in millions of Year of Expenditure (YOE) dollars.

This Financial Plan consists of three main components that are presented in the following chapters. The first component is the capital plan, which outlines capital costs and presents revenues available for the Project, as well as for the rest of the public transportation system. The purpose of the capital plan is to demonstrate the City has the financial capacity to implement the Project, while keeping its entire public transportation system in a state of good repair by replacing aging vehicles and addressing other ongoing capital expenditure needs.

The second component is the operating plan, which demonstrates the capacity of the City to operate and maintain the integrated transit system including the Project. The final component presents an analysis of risks and uncertainties, which is critical in assessing the potential risks inherent to some of the assumptions made in the Financial Plan. The final section also includes a comprehensive analysis of mitigating strategies to address those risks, as well as sensitivity analyses to evaluate funding and financing options to overcome potential shortfalls.

DESCRIPTION OF THE PROJECT SPONSOR AND FUNDING PARTNERS

PROJECT SPONSOR – CITY AND COUNTY OF HONOLULU

The City is the Project sponsor and FTA grantee. The City is a body politic and corporate, as provided in Section 1-101 of the Revised Charter of the City and County of Honolulu 1973, as amended. The City's governmental structure consists of the Legislative Branch and the Executive Branch.

The legislative power of the City is vested in and exercised by an elected nine-member City Council whose terms are staggered and limited to no more than two consecutive four-year terms. The executive power of the City is vested in and exercised by an elected Mayor, whose term is limited to no more than two consecutive full four-year terms.

The City is authorized under Chapter 51 of the Hawai'i Revised Statutes to "acquire, condemn, purchase, lease, construct, extend, own, maintain, and operate mass transit systems, including, without being limited to, motor buses, street railroads, fixed rail facilities such as monorails or subways, whether surface, subsurface, or elevated, taxis, and other forms of transportation for hire for passengers and their personal baggage." This authority may be carried out either directly, jointly, or under contract with private parties. The City is the designated recipient of FTA Urbanized Area Formula Funds apportioned to the Honolulu and Kailua-Kāne'ohe urbanized areas. Transit services are currently provided through the City's Department of Transportation Services' Public Transit Division.

Honolulu Authority for Rapid Transportation

On November 2, 2010, Honolulu voters approved an amendment to the Charter of the City and County of Honolulu to create a semi-autonomous public transit authority responsible for the planning, construction, operation, maintenance, and expansion of the City's fixed guideway mass transit system. The Honolulu Authority for Rapid Transportation (HART) will consist of a Board of Directors, Executive Director, and necessary staff.

HART will begin to operate on July 1, 2011 and will assume the duties and responsibilities of the Rapid Transit Division (RTD) of the City's Department of Transportation Services (DTS) for the Project. Accordingly, FY2012 will be the first year of business activities for HART.

HART will function as a semi-autonomous unit of the City's government. During FY2012 HART will continue to

use various City business systems and administrative practices in the conduct of the new authority's business activities (e.g., City Department of Budget and Fiscal Services accounting and payroll systems). In addition, HART will continue to receive services provided by other City departments. Memorandums of Understanding with the City departments are being created to set forth the scope and terms of the services to be provided. This support from the City will enable HART to begin functioning relatively quickly and assume its responsibilities for undertaking the Project without any negative impact on its implementation. During FY2012 and beyond, HART will evaluate the extent to which it should develop its own business systems.

HART will need to complete a number of steps during its first year of operations in order to develop the organizational capability and capacity to fulfill its mission as described in the preceding section. A preliminary listing of the tasks that will be undertaken in FY2012 includes the following:

- Adopt Board of Directors operating procedures and practices including a committee structure and meeting schedule.
- Recruit an Executive Director and other key management, technical and support staff.
- Adopt Board policies guiding agency business activities (e.g., financial policy and procurement policy).
- Develop administrative procedures and practices that are specific to a transit agency in areas such as procurement and contract administration; safety and security; employee relations; and management reporting.
- Develop a management reporting system on key performance metrics.
- Create an organizational structure that will enable fulfillment of the agency's Mission and Vision.

During FY2012 the HART Board of Directors will consider and adopt a procurement policy and staff will develop procurement procedures for the agency consistent with federal, State and City requirements. The procurement procedures will be incorporated in a Procurement Manual for use by the staff and consultants in carrying out procurement and contract administration activities. In addition, HART will conduct procurements for needed services, equipment and supplies related to the creation of the agency.

HART staff will provide the Board of Directors with periodic reports on the status of existing contracts including the progress of the work being performed; change orders executed; and contract budget and contingency status.

Department of Transportation Services – Public Transit Division

The DTS Public Transit Division will continue to be responsible for managing the City's fixed route bus and paratransit services operated under contract by O'ahu Transit Services, Inc. The City's fixed route bus system is referred to as "TheBus," and is currently the 20th most utilized transit system in the U.S. Annual transit passenger miles per-capita are higher in Honolulu than in all other major U.S. cities without a fixed guideway transit system. TheBus serves the entire island of O'ahu, including the estimated 900,000 residents and 100,000 visitors on the island on an average day. TheBus currently has 100 routes and provides more than 70 million unlinked passenger trips each year. In 1997, O'ahu Transit Services was assigned operating responsibility for the City's paratransit services, referred to as the "TheHandi-Van." With more than 13,000 eligible customers, TheHandi-Van currently provides over 800,000 unlinked passenger trips per year.

FUNDING PARTNERS

The financial analysis applies and assumes capital funding projections from two major funding partners: the City and FTA. The financial analysis applies several sources of operating funds, mainly consisting of passenger revenues and federal formula grants for preventive maintenance activities, while additional funding for operations is provided by transfers from the City's General and Highway funds. Capital and operating funding sources are further described both below and in subsequent chapters of this report.

City and County of Honolulu

The dedicated local funding source for the implementation of the Project is an established one-half percent (0.5 percent) surcharge on the State of Hawai'i's General Excise and Use Tax (GET Surcharge). In 2005, the Hawai'i State Legislature authorized the counties to adopt a maximum 0.5 percent GET Surcharge for public transportation projects. Following this authorization, the City enacted Ordinance No. 05-027 establishing the 0.5 percent GET Surcharge. The GET Surcharge commenced on January 1, 2007, and will be levied through December 31, 2022. Business activities that take place on O'ahu that are subject to the 4 percent GET rate (including retailing of goods and services, contracting, renting real property or tangible personal property, and interest income), are also subject to the GET Surcharge.

This source of revenue is to be exclusively used for operating or capital expenditures of a fixed guideway system. The Hawai'i Department of Taxation is responsible for collecting the GET Surcharge and

remitting to the City the net amount after retaining 10 percent of the gross proceeds. The Financial Plan projects that revenues from the GET Surcharge will be approximately \$3.7 billion (FY2007–FY2023).

Federal Transit Administration

Federal funding assistance from FTA is assumed in the Financial Plan for Project capital expenditures. The City is requesting a total of \$1.55 billion in FTA New Starts funding to implement the Project. FTA Urbanized Area Formula funds and non-New Starts discretionary capital investment funds will also fund portions of the Project, as well as continue to provide assistance for preventive maintenance and ongoing capital expenditures for the entire transit system. In FY2010, the City also received \$29 million in funds from the American Reinvestment and Recovery Act (ARRA), \$4 million of which were applied to preliminary engineering costs for the Project, the remainder being used in FY2010 and FY2011 for other capital needs.

DESCRIPTION OF THE PROJECT

The Project's east-west corridor stretches across southern O'ahu. The corridor is, at most, 4 miles wide because much of it is bounded by the Ko'olau and Waianae Mountain Ranges in the north and the Pacific Ocean in the south. Between Pearl City and Aiea the corridor's width is less than 1 mile.

Between Kapolei and the University of Hawai'i at Manoa, the corridor is highly congested with more than 60 percent of O'ahu's population residing there. The City and County of Honolulu General Plan (Honolulu General Plan, DPP 1997a) directs future population growth to the Ewa and Primary Urban Center Development Plan and the Central O'ahu Sustainable Communities Plan area. The largest increases in population and employment growth are expected to occur in the Ewa, Waipahu, Downtown and Kaka'ako Districts, which are all located in the corridor.

According to the 2000 census, Honolulu ranks as the fifth densest city among U.S. cities with a population greater than 500,000. Among those, Honolulu is the only one without a fixed guideway transit system.

Increasing traffic congestion has impacted the accessibility of the corridor, reduced mobility for people and goods, degraded transit performance, and increased travel costs. The longer travel times reduce the attractiveness of new developments emerging in Ewa/Kapolei. Average weekday peak-period speeds on Interstate Route H-1 (H-1 Freeway), which runs through the corridor with the H-2 and H-3 Freeways feeding into it, are currently less than 20 miles per hour in many

places and will degrade further by 2030. Travelers on O'ahu's roadways currently experience 51,000 vehicle hours of delay, a measure of how much time is lost daily by travelers in traffic, on a typical weekday. This is expected to increase to 71,000 hours by 2030, assuming all planned improvements in the O'ahu Regional Transportation Plan (ORTP) are implemented (excluding a fixed guideway system). Without the improvements, the vehicle hours of delay could reach as high as 326,000 vehicle hours.

OBJECTIVES OF THE PROJECT SPONSOR

The City's goal for the Project is to provide high-capacity, high-speed transit service in the congested east-west transportation corridor mentioned above, as specified in the ORTP. The Project is intended to provide faster, more reliable transportation in the corridor and to provide basic mobility in areas with diverse populations.

The following objectives were used to select the Project:

- Improve corridor mobility
- Encourage patterns of smart growth and support City land use policies for growth
- Improve transit service reliability
- Provide equitable transportation solutions for all people in the corridor

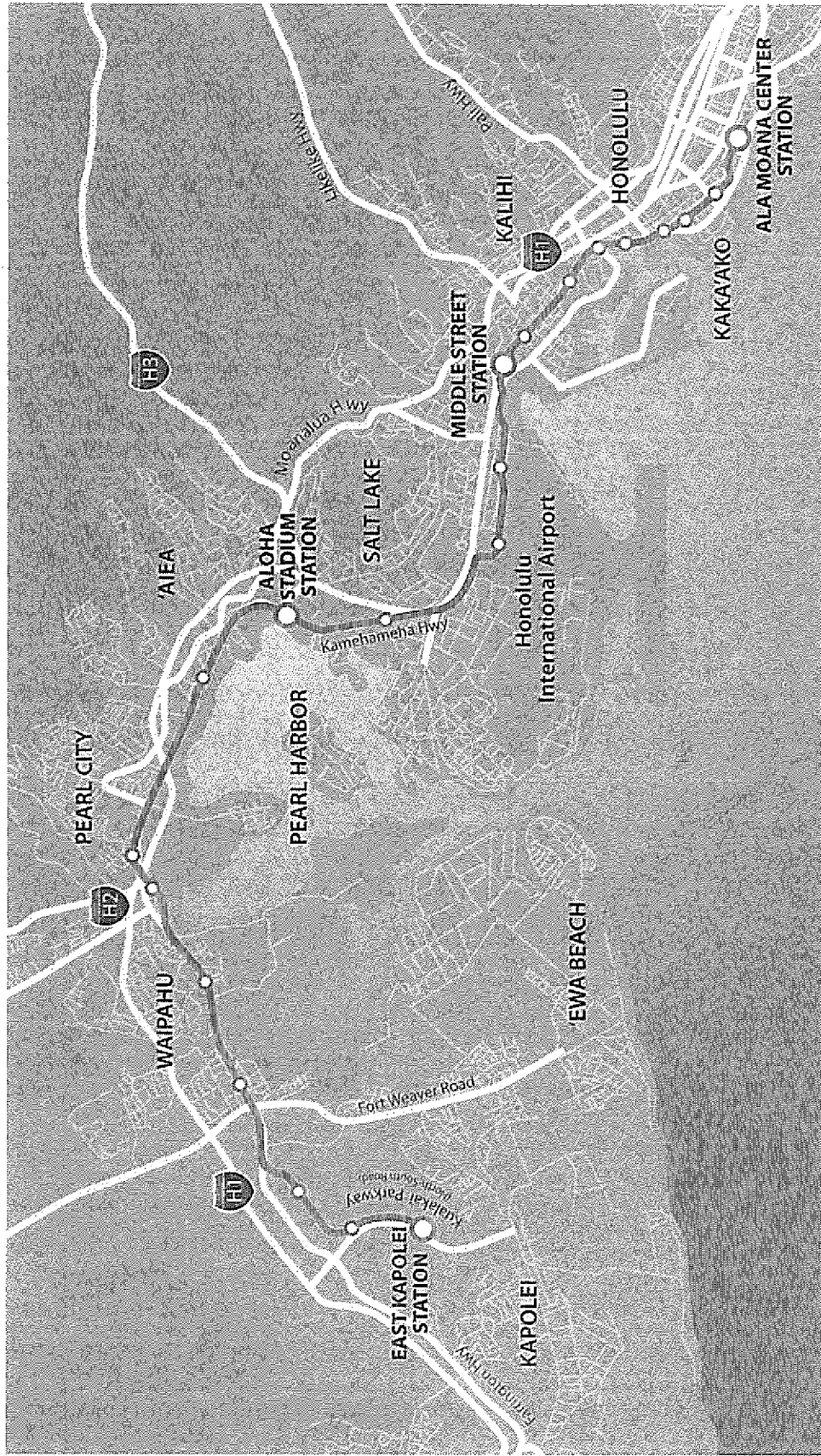
Implementation of the Project, in conjunction with other improvements in the ORTP, will moderate the growth of anticipated traffic congestion in the corridor, provide an alternative to private automobile use, and improve transit linkages to and within the corridor. The Project also supports the goals of the O'ahu's General Plan and the ORTP by serving areas designated for urban growth.

PROJECT DETAIL

The Project, on which this Financial Plan is based, is a 20.2-mile rail transit system extending from East Kapolei in the west to the Ala Moana Center in the east and is shown in Figure 1-1. The alignment will include 21 stations and will be a dual guideway with 19.5 miles elevated and 0.7 miles constructed at-grade.

The Project is expected to be constructed in three phases. The first phase will be the portion between East Kapolei and Aloha Stadium, and will also include construction of the vehicle maintenance and storage facility. The second phase will be constructed from Aloha Stadium to Middle Street and the final phase will continue to the Ala Moana Center.

Figure 1-1, Project Location Map



Engineering for the Project continues and work on the first construction section is expected to begin in September 2011. Construction of the rest of the Project would be completed in phases. Commencement of revenue service on the initial segment is proposed in FY2016, with the entire Project operating in FY2019.

Cost estimates for the Project presented in this Financial Plan reflect a steel wheel on steel rail automated technology, operating primarily on elevated guideway using high floor vehicles and a barrier-free fare collection system.

INTEGRATION WITH THE EXISTING SYSTEM

The Project will be fully integrated with TheBus operations, which will be reconfigured to add feeder bus service to provide increased frequency and more transfer opportunities between bus and rail.

The Financial Plan assumes fares will be the same for TheBus and the Project, with free transfers and passes allowed on both modes. Fare machines will be available at all rail stations, and standard fareboxes will continue to be used on all buses. More information regarding the fare structure and fare revenues can be found in Chapter 3.

PROJECT TIMING

The City initiated technical and engineering work in support of the National Environmental Policy Act (NEPA) in late 2007 and received FTA approval to proceed into Preliminary Engineering (PE) on October 16, 2009. On January 18, 2011, FTA issued a Record of Decision (ROD) for the Project and provided pre-award authority for right-of-way acquisition, utility relocation, and acquisition of rail vehicles. A summary of the major Project development milestones is provided in Table 1-1. The Project schedule is subject to change as procurement and phasing decisions are finalized.

Table 1-1, Summary of Major Project Development Milestones

Milestone	Date
FTA Approves Entry into PE	October 16, 2009
FTA Issues Record of Decision	January 18, 2011
City Submits LONP Request for Limited Final Design Activities	April 2011
FTA Approves LONP for Limited Final Design	April 2011
City Requests Entry into Final Design	July 2011
City Submits LONP for Limited Construction Activities	July 2011
FTA Provides Final Design Approval	September 2011
FTA Approves Limited Construction LONP	September 2011
City Requests FFGA	February 2012
City and FTA Execute FFGA	October 2012
Open East Kapolei to Aloha Stadium	December 2015
Open East Kapolei to Middle Street	October 2017
Open East Kapolei to Ala Moana	March 2019

LONP = Letter of No Prejudice

FFGA = Full Funding Grant Agreement

PROCUREMENT AND PROJECT DELIVERY

The Project will be constructed under multiple design-build agreements, where contractors will share in the risks of the Project, resulting in expected cost savings to the City.

The Core Systems Contract (systems and vehicles) was awarded in 2011 as a design-build-operate-maintain (DBOM) agreement, with the expectation that the operations and maintenance (O&M) component could be extended to 10 years beyond the completion of the full Project in FY2019. Consistent with the project development milestones, the following summarizes the O&M periods for the Core Systems Contract:

- Intermediate O&M Period #1 – East Kapolei to Aloha Stadium – December 2015 to October 2017
- Intermediate O&M Period #2 – East Kapolei to Middle Street – October 2017 to March 2019
- Full O&M Period – East Kapolei to Ala Moana – March 2019 to March 2024
- Optional O&M Period – East Kapolei to Ala Moana – March 2024 to March 2029

The cost estimates presented in this report were developed based on contract bid prices for the Core Systems Contract and construction contracts for the first phase of the Project. Additional information about the procurement and delivery strategy is provided in Chapter 2.

REGIONAL ECONOMIC CONDITIONS

Unlike a sales tax which is typically levied on retail activities only, the 0.5 percent GET Surcharge is levied on retail, services, contracting, theater, amusement parks; interest, commissions, hotels, all other rentals and other uses.

The local economy has generally followed the trends of the nation as a whole in the recent months. Overall, the State of Hawai'i Department of Business Economic Development and Tourism (DBEDT) estimates that the economic recovery began in 2010, as real gross state product increased 1.4 percent.

Tourism plays an important role in Hawai'i's economy, and historical data show there has been a strong correlation between GET collections and the number of visitors. The State of Hawai'i Tourism Authority estimates that tourism accounts for 15 percent of the state's economy and more than 133,000 jobs. The decline in tourism activity and spending has affected Hawai'i. Nonetheless, DBEDT estimates visitor expenditures increased 16 percent in 2010, and forecasts a 9.2 percent increase in 2011. This recovery is expected to continue in the long-term and would lead to increases in GET Surcharge revenues.

Employment in Honolulu is heavily influenced by the construction and contracting sector, and military and military-related jobs. With the recent downturn in the housing market, residential and non-residential construction has slowed; however, the private residential and non-residential construction is expected to resume after housing prices stabilize through FY2011 and FY2012. Furthermore, the infrastructure spending provisions of the federal economic stimulus bill have started to take effect and will continue through FY2012, increasing demand for construction related labor, which could potentially increase tax receipts.

Another important area of Honolulu's economy is the stability of military employment. Even though it has declined by more than 20 percent in the last 10 to 15 years, military employment has maintained a consistent presence with about 59,000 U.S. Department of Defense military and civilian personnel each year. Federal defense spending makes up approximately 11 percent of the total O'ahu economy due to military and supporting civilian employment. The stability of this employment contributes to the overall economy, although federal defense spending is not likely to contribute to growth in the coming years as much as expansion in private industry.

Together, all of these trends show that while Honolulu's economy was recently in a downturn along with the rest of the country, signs of recovery began in 2010. This recovery should continue through FY2011 and FY2012. Given the dependence of the Project's Financial Plan on GET Surcharge revenues, the local economic environment in Hawai'i is very important. Additional details regarding projections GET Surcharge revenues can be found later in this report.

New uncertainties have arisen regarding the potential impacts of the Japanese earthquake and tsunami which occurred in March 2011. Until the full scale of the disaster and reconstruction effort is known, it is too early to estimate the impacts on the regional economy and commodity prices. As described in Chapter 2, it is expected that there will be some short-term impacts to GET Surcharge collections. However it is important to note that the Financial Plan is based on a 20-year forecast horizon, where one-time, short-term disruptions are not as critical as long-term trends.

SUMMARY OF THE FINANCIAL PLAN

Table 1-2 summarizes the capital cost of the Project with and without finance charges. The total capital cost including finance charges through FY2019 will be the amount included in an FFGA as the "Baseline Project Cost", as is consistent with FTA guidelines for New Starts projects. The total capital cost with finance

charges through FY2030 includes all finance charges associated with the Project construction.

Table 1-2, Project Capital Cost Summary, FY2010–2030, YOE \$millions

Project Capital Cost*	Millions YOE \$
Excluding Finance Charges	\$4,983
Including Finance Charges through FY2019**	\$5,213
Including Finance Charges through FY2030	\$5,317

* From the beginning of PE (October 16, 2009 through FY2019)

** As will be defined as Baseline Project Cost in FFGA

Table 1-3 summarizes the capital and operating sources and uses of funds for the Project, as well as for the entire transit system. Sources and uses are based on the baseline assumptions as defined in the subsequent chapters of this report. The City is expected to balance sources and uses in aggregate over the FY2010–FY2030 period.

CHANGES TO FINANCIAL PLAN SINCE REQUEST TO ENTER PRELIMINARY ENGINEERING

The prior version of the Financial Plan was submitted to FTA in August 2009 as part of the City's request to enter the PE phase of project development. This version of the Financial Plan has been revised to reflect the most current project status, costs, and revenue forecasts, as well as the establishment of HART as the semi-autonomous agency that will manage the Project. The Financial Plan also reflects a more refined financing structure based on current market conditions, and input on interest rates and bond structures from the City's bond underwriters. Finally, the plan reflects changes to respond to comments from FTA, local officials and the public on the previous financial plan.

The following list summarizes the most significant changes to the Financial Plan since it was submitted in August 2009. Assumptions are described in more detail in Chapters 2 and 3.

Capital Cost Changes: The capital cost estimate reflects more advanced levels of design and cost estimation methodologies. The total capital cost before financing is \$4,983 million. Approximately \$1.9 billion, or 39 percent of the capital cost, is based on actual contracts awarded in 2010 and 2011, including the West O'ahu/Farrington Highway Guideway Design-Build Contract; the Kamehameha Highway Guideway Design-Build Contract; the Maintenance and Storage Facility Design-Build Contract; and the Core Systems Design-Build-Operate-Maintain (DBOM) Contract. The remainder of the capital cost not covered by these contracts reflects a bottom-up cost estimate.

Table 1-3, Project and System-wide Sources and Uses of Funds, FY2010–FY2030, YOY \$millions

SOURCES OF FUNDS		YOY \$M	USES OF FUNDS		YOY \$M
Project Capital Sources of Funds			Project Capital Uses of Funds		
Project Beginning Cash Balance		298	Project Capital Cost		4,983
Net GET Surcharge Revenues		3,306	Subtotal Project Capital Uses of Funds		\$4,983
FTA Section 5309 New Starts Revenues		1,550	Finance Charges		
FTA Section 5307 Formula Funds Used for the Project 1/		248	Total Interest Payment on Long-term Debt		221
Interest Income on Cash Balance		6	Total Finance Charges on Medium-term Debt		80
Transfer of Excess GET Surcharge Funds to Ongoing Capital		(91)	Total Finance Charges on Short-term Debt		15
			Debt Issuance Cost		18
			Subtotal Finance Charges		\$334
Subtotal Project Capital Sources of Funds		\$5,317	Subtotal Project Uses of Funds		\$5,317
Ongoing Capital Sources of Funds			Ongoing Capital Uses of Funds		
FTA Section 5309 Fixed Guideway Modernization Revenues		147	Additional Railcars		35
FTA Section 5309 Bus Discretionary		117	Rail Capital Asset Replacement Program (CARP)		155
FTA Section 5307 Formula Funds Used for Ongoing CapEx		517	Total Bus Acquisitions		982
American Recovery & Reinvestment Act		26	Other Ongoing Bus CapEx		246
Transfers to the State's Vanpool Program		(57)	Handi-Van Acquisitions		135
Transfer of Excess GET Surcharge Funds from Project Capital Plan		91			
City General Obligation Bond Proceeds		712			
Subtotal Ongoing Capital Sources of Funds		\$1,553	Subtotal Ongoing Capital Uses of Funds		\$1,553
TOTAL CAPITAL SOURCES OF FUNDS		\$6,869	TOTAL CAPITAL USES OF FUNDS		\$6,869
Operating Sources of Funds			Operating Uses of Funds		
Fare Revenues (TheBus and Rail)		1,933	Total O&M Costs - TheBus		5,138
Fare Revenues (TheHandi-Van)		60	Total O&M Costs - Rail		1,331
Total Fare Revenues		\$1,994	Total O&M Costs - TheHandi-Van		1,147
FTA Section 5307 Formula Funds Used for Preventative Maintenance		236	Total O&M Costs - Other		23
FTA Section 5316 (JARC) and 5317 (New Freedom)		20			
City's Operating Subsidy		5,388			
TOTAL OPERATING SOURCES OF FUNDS		\$7,638	TOTAL OPERATING USES OF FUNDS		\$7,638

1/ FTA Section 5307 funds includes \$4M from American Recovery & Reinvestment Act of 2009

Note: Totals may not add due to rounding

Capital Revenues: The forecast for GET Surcharge revenues, which is the main source of non-federal revenue for the Project, has been revised to reflect actual receipts through the third quarter of FY2011 and updated GET Surcharge growth rates for FY2011 to FY2023. As described in Chapter 2, the source of the growth rate forecast is the Hawai'i Department of Taxation, which utilizes inputs economic data by the State's Council on Revenues.

The Financial Plan also includes a revised forecast for FTA Section 5307 revenues. The amount of Section 5307 funding being used for the Project has been reduced from \$300 million to \$244 million, and does not include any Section 5307 revenues going to the Project from FY2010 through FY2012. The Section 5307 amounts have also been revised based on the latest unit values published by the FTA.

The forecast for Section 5309 Bus and Bus Facilities Funds, which is used to support bus capital expenditures, has been revised downward to reflect the year-to-year variations in this discretionary program. The forecast now based on City average historical receipts of 5309 bus discretionary funding.

Operating Plan: O&M cost estimates for the rail system have been refined to reflect the terms of the Core Systems Contract. Project costs that fall outside the

Core Systems Contract (and thus delivered directly by the City) were calculated separately using FTA's resource build-up approach, which applies unit cost elements to key level of service variables. TheBus O&M costs have been revised to reflect the City's latest operating budget. Refined inflation assumptions were also applied to non-core systems rail O&M costs, TheBus O&M costs, and TheHandi-Van O&M costs for each object class object class, including wages & salaries, health care, other benefits, materials and supplies, fuel, and other costs.

Cash Flow/Financing: The financing structure includes a revised mix of proposed debt instruments that have been identified with input from the City's bond underwriters. This version of the Financial Plan assumes a lower amount of short-term commercial paper (reduced from \$500 million to \$100 million) that would be rolled over on an annual basis. This change would annually preserve up to \$100 million of capacity in the existing commercial paper program, which could be used to help bridge short-term financing needs if required.

Additionally, this version of the Financial Plan also includes Grant Anticipation Notes that will be backed by FTA Section 5309 New Starts revenues committed through the Project's FFGA. The plan also includes mid-term Bond Anticipation Notes that will be issued each